No. 75-1090

IN THE

Supreme Court of the United States

OCTOBER TERM 1975

Supreme Court, U. S.
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MICHAEL RODAK, JR., CLERK

KEITH B. REDD, d/b/a ABAJO PETROLEUM,

Petitioner,

vs.

SHELL OIL COMPANY and
CONTINENTAL OIL COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

INTRODUCTION

Petitioner Keith B. Redd prays that a Writ of Certiorari issue to review a judgment of the United States Court of Appeals for the Tenth Circuit entered on November 3, 1975, reversing a district court judgment in favor of Mr. Redd in a private antitrust action and squarely holding: (1) An explicit agreement between a manufacturer and each of its jobbers to restrict the territory in which each jobber can resell products purchased from the manufacturer is not a *per se* violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, unless there is "firm and resolute" enforcement of the restriction by the manufacturer, and (2) No tying agreement subject to Section 1 of the Sherman Act, 15 U.S.C. § 1, arises when a major oil company grants all of its branded jobbers a franchise to use the company's marketing identification, including its trademarks, on the explicit condition that the total

supply of refined petroleum products marketed by such jobbers under such identification be purchased from the company on the ground the right to use the company's marketing identification is "inseparable" as a matter of law for tying purposes from the supply of refined petroleum products even though the company sells the very same refined petroleum products separately from its marketing identification and even though the company acquires refined petroleum products that it markets from other major oil companies by specification.

OPINIONS BELOW

The opinion of the Tenth Circuit at this time has only been reported in *Redd v. Shell Oil Company*, 1975-2 CCH Trade Cas. ¶ 60,572 (10th Cir. Nov. 3, 1975) and is printed in Appendix A to this petition (A-1—A-7). The opinion of the United States District Court for the District of Utah in the action below is only reported in *Redd. v. Shell Oil Company*, 1974-2 CCH Trade Cas., ¶ 75,390 (D. Utah 1974) and is also printed in Appendix A. (A-8—A-27)

JURISDICTION

The judgment of the Tenth Circuit was entered on November 3, 1975, and the jurisdiction of this Court to review that judgment by writ of certiorari is invoked under 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

1. Whether an explicit agreement between a major oil company and a branded jobber to restrict the territory in which the jobber can resell refined petroleum products purchased from the oil company constitutes a *per se* violation of Section 1 of the Sherman Act, 15 U.S.C.

§ 1, only if the major oil company takes "firm and resolute" action to enforce the restriction.

2. Whether the holding of the Tenth Circuit that an explicit agreement between a manufacturer and its customer to restrict the territory in which the customer can resell products purchased from the manufacturer only constitutes a *per se* violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, if the manufacturer takes "firm and resolute" action to enforce the restriction is contrary to this Court's decision in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967).

3. Whether Shell entered into an unlawful tying arrangement with its branded Shell jobbers as a matter of law when (a) the franchise provisions of all of its Shell jobber contracts granting such jobbers a franchise to use Shell's marketing identification — its trademarks, brand names, and color scheme — required such jobbers to purchase the total supply of refined petroleum products, including gasoline, marketed by them under such identification from Shell, (b) very substantial quantities of gasoline were sold by Shell to such jobbers pursuant to such contracts, (c) Shell acquired gasoline that it compelled its jobbers to purchase from Shell pursuant to such franchise provision from non-Shell sources by specification, and (d) Shell marketed the identical products, including gasoline, in extensive quantities separately from the Shell identification.

4. Whether no tying arrangement subject to the scrutiny of Section 1 of the Sherman Act, 15 U.S.C. § 1, arises when a major oil company grants all of its branded jobbers a franchise to use the company's marketing identification, including its trademarks, on the explicit condition that the total supply of refined petroleum products

marketed by such jobbers under such identification be purchased from the company on the ground the right to use the company's marketing identification is "inseparable" as a matter of law for tying purposes from the supply of refined petroleum products even though the company sells the very same refined petroleum products separately from its marketing identification and even though the company acquires refined petroleum products that it requires its branded jobbers to buy from it from other major oil companies by specification.

5. Whether the Tenth Circuit's decision below or the decisions of the Ninth Circuit in *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972), the Fifth Circuit in *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.*, 463 F.2d 1002 (5th Cir), *cert. denied*, 409 U.S. 1086 (1972), and the Second Circuit in *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dism'd*, 381 U.S. 125 (1965), should control the determination of whether a trademark license is a separate item for tying purposes under Section 1 of the Sherman Act, 15 U.S.C. § 1.

6. Whether a trademark license in the form of a marketing franchise grants the owner of the mark a monopoly to control the supply of products marketed under the franchise.

7. Whether the branded jobbers of a major oil company under Section 1 of the Sherman Act, 15 U.S.C. § 1, are entitled to the same competitive opportunity with regard to the purchase of gasoline for resale under the company's marketing identification as the major oil company — that is the opportunity to purchase by specification.

8. Whether Shell's counterclaim of trademark infringement to enforce its tying arrangement with its branded jobbers was barred as a matter of law by Shell's misuse of its trademarks in connection with violations of the antitrust laws of the United States, 15 U.S.C. § 1115(b)(7).

STATUTES INVOLVED

The statutes involved are Section 1 of the Sherman Act, 15 U.S.C. § 1, and Section 33(b)(7) of the Lanham Act, 15 U.S.C. § 1115(b)(7), and these statutes are printed in Appendix B to this Petition.

STATEMENT OF THE CASE

A. Proceedings in the Trial Court. Mr. Redd, doing business as Abajo Petroleum, commenced this private antitrust action in the United States District Court for the District of Utah and invoked the jurisdiction of that court with regard to the antitrust claims asserted pursuant to Sections 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15, 26. Mr. Redd asserted three claims against Shell: (1) an illegal tying claim under Section 1 of the Sherman Act, (2) a territorial resale restriction claim under the same section, and (3) a claim for breach of contract. Shell counterclaimed against Abajo for trademark infringement. Mr. Redd pled an affirmative defense of trademark misuse to Shell's counterclaim.

The district court granted the Plaintiff's motion for partial summary judgment on its claim of illegal tying and determined as a matter of law that Shell had entered into an illegal tying arrangement in violation of Section 1 of the Sherman Act. The district court also granted Abajo's motion for summary judgment on Shell's coun-

terclaim on the ground Shell had misused its trademarks in connection with violations of the antitrust laws of the United States by (1) its illegal tying arrangement, and by (2) the explicit territorial resale restriction of the franchise provision of Shell's jobber sales contract with Redd. (A-8—A-27)

All issues raised by Redd's claims other than the liability issue on his claim of illegal tying were submitted to a jury for determination. The jury, of course, was not instructed in any way of the summary judgment on Shell's counterclaim or the Court's grounds for the granting of that motion. The Plaintiff did not request the trial court for a determination of its affirmative claim of territorial resale restriction as a matter of law either by motion for a directed verdict or a request for a preemptory instruction, and Shell did not claim in any way in its exceptions to the Court's charge that the Court had taken the issue of liability on the Plaintiff's claim of territorial resale restriction from the jury. (R. 1855-58)[1] The Court did refuse to give Shell's request that an explicit territorial resale restriction between Shell and its branded jobbers was not a *per se* violation of Section 1 of the Sherman Act absent "firm and resolute" enforcement of the restriction by Shell.

The jury returned a verdict in favor of Redd and answered Rule 49(b) interrogatories separately with regard to each of Redd's claims. (R. 375-77; R. 1863-65) The jury's answers to such separate interrogatories were not only consistent with its general verdict, but such answers

[1]Cites in this Petition are to the pages in the Joint Appendix filed in the Circuit Court (designated as R.....). Plaintiff's and Defendants' Exhibits are cited to as "PX" and "DX" respectively by the numbers or letter designation of the Exhibit and to the page in the Exhibits Volume where the referenced material appears as "Ex." Cites to the Appendix to this Petition are to the Appendix A, B or C and then appropriate Appendix page.

segregated Redd's claims of illegal tying and territorial resale restriction for the purpose of appellate review. Upon the trebling of the amounts awarded by the jury on Redd's antitrust claims and the award of attorney's fees, the trial court entered a judgment for Redd in the amount of $423,662.63.

B. Statement of Facts on territorial resale restriction claim. Keith Redd served as a Shell jobber from April 1964, until he was terminated by Shell on March 31, 1971. (PX. 2, Ex. 14, R. 438; PX. 11, Ex. 44, R. 548) During the entire time Redd was a Shell jobber the Shell jobber sales contract he signed on April 8, 1964, covered his basic business relationship with Shell. The provision of that contract denominated "FRANCHISE" granted Redd a franchise to market refined petroleum products purchased from Shell under Shell's marketing identification — its trademarks, brand name and color scheme — within a territory assigned to him under the franchise provision. The franchise provision prohibited Redd from marketing any of the products he purchased from Shell outside of his assigned territory in this language:

> FRANCHISE: . . . Buyer shall not sell . . . any product purchased hereunder outside of, or for delivery or resale outside of, Buyer's territory (Shell's decision to be final as to whether or not any location is within Buyer's territory). (PX. 2, Ex. 2, R. 438; PX. 14, Ex. 33, R. 782)

"Buyer's territory" was defined in the contract as the territory "outlined in red on the map attached hereto" (*Ibid.*, and see, Appendix C) and as the Tenth Circuit acknowledged, a map was attached to Redd's contract and the agreement contained "clear restrictions on the area within which Plaintiff could sell". (A-5) The restrictive covenant was enforced by the termination provision of the contract. (PX. 14, Ex. 35, ¶H, R. 782)

Redd's jobber sales contract with its explicit territorial resale restriction was a standard form Shell jobber contract and was used by Shell for each of Shell's 40 jobbers in Shell's Phoenix District, the Shell marketing district in which Redd's territory was located. (R. 80-83; PX. 18, Ex. 84-86, R. 813)

Redd's business was headquartered at Blanding, Utah, and Shell at all times supplied Redd with gasoline and diesel fuel refined by Shell at Shell's refinery in Ciniza, New Mexico. (R. 451-52, 470) The location of Shell's Ciniza refinery in relationship to Redd's assigned territory is set forth in Appendix C to this petition.

Within his assigned territory Redd marketed the products he purchased from Shell at retail gasoline stations in Monticello and Blanding, Utah, and Many Farms, Arizona. Redd had two bulk plants — one at Blanding and one at Kayenta, Arizona. (R. 431-432, 434) He distributed petroleum products purchased from Shell to other gasoline stations, including trade posts located at Tsegi, Shonto, Inscription House and Navajo Mountain, Arizona. (R. 444-45) He also served farm and industrial accounts in his territory. (R. 445-46) His largest volume customers were government accounts which primarily purchased diesel and burner fuel. (R. 446) Redd thus served inside his territory as both a wholesaler and retailer of petroleum products.

Shell "firmly and resolutely" enforced the explicit territorial resale restriction of Redd's jobber sales contract by its pricing and delivery practices. (R. 995-96) These practices were f.o.b. destination pricing and mandatory bulk plant delivery. (R. 833) Shell by the terms of its jobber contract only sold Redd gasoline and diesel fuel at prices f.o.b. his bulk plants and compelled delivery of the product Redd purchased from Shell to those bulk

plants before redistribution by Redd to his customers. (R. 833; PX. 2, Ex. 14, ¶¶ 2, 4, R. 782) Under these practices Abajo was required to purchase gasoline and diesel fuel from Shell at prices that included the cost of transporting such product to Abajo's bulk plants at Blanding and Kayenta and Abajo was required to accept delivery of such product at those plants located well inside Abajo's assigned territory and at substantial distances from the Ciniza refinery. (R. 841-43, 1070-71, 1074-75) Even Shell's own witnesses acknowledged that by purchasing product priced and delivered in this manner Redd was placed at a substantial competitive disadvantage in competing for business outside of his assigned territory. (R. 839, 840, 997)

Throughout the time Redd was a Shell jobber, Shell refused Redd's request to purchase product f.o.b. the Ciniza refinery, to haul his own product or to at least pay for and control the common carrier Shell used to deliver product to Redd's bulk plants. (R. 455-58, 479-80, 751-52; PX. 27, Ex. 119, R. 1120; DX. 1010, Ex. 224, R. 1160) Shell did not sell Redd product at prices f.o.b. refinery even though such pricing was common in the industry (R. 503-04, 1029) and Shell itself sold products to its unbranded jobbers at f.o.b. Ciniza prices. (R. 834-35) Shell also refused Redd's request for a hauling allowance under Shell's hauling allowance program. (R. 480) An f.o.b. destination price less the hauling allowance would, of course, equate to an f.o.b refinery price (R. 873, 997) and would give Redd control over his product at a price and a place that would permit him to effectively compete for business outside of his assigned territory. Under Shell's hauling allowance program, Shell still imposed mandatory bulk plant delivery, even when that requirement meant that a jobber had to drive right past a customer capable of accepting transport load delivery, incur the make-work cost of unloading and reloading the product from his bulk

plant and then backhauling the product to the same customers. (R. 867-68, 861-62) Jobbers, however, controlling product under a hauling allowance did not accede to the economic nonsense of mandatory bulk plant delivery and delivered bulk directly to customers from the refinery whenever and wherever it was in their competitive interest to do so. Shell simply refused to grant Redd's request for a hauling allowance. (R. 456-58, 479-80, 751-52, 1620-21) The reason Shell did not grant Redd's request was that Shell's management did not want Redd to haul his own product as an internal Shell document reflected when it stated, "As you know, Redd wants to buy a tanker and haul his own stuff. . . . I know region discourages any additional jobber doing their own hauling." (R. 1203-06) And in another Shell document which provided in writing concerning Redd, "Management frowns on jobbers hauling their own products and wants all requests discouraged." (PX. 22, Ex. 89, R. 869-70)

Throughout the time Redd was a Shell jobber, Shell delivered product to Redd by common carrier and paid the standard common carrier tariff. (R. 452, 842, 1125-26; PX. 13, Ex. 27, R. 755-56) Shell not only refused to sell product to Redd at f.o.b. refinery price or grant him a hauling allowance, Shell even refused to permit Redd to pay for and thus control the common carrier Shell used to haul product from the Ciniza refinery. (R. 457-58) Prior to 1970 Shell, at least, permitted its common carrier to deliver product directly to Redd's customers within his territory that were capable of accepting direct transport load delivery such as Redd's stations at Many Farms and Monticello and his large government accounts at Tuba City, Rocky Ridge, Rock Point, Rough Rock and Chilchinbito. (R. 1069-75, 843-44) When direct deliveries cost Shell less than bulk plant deliveries, Shell received the benefit of the short-stop deliveries by paying lower common carrier rates and charging Redd the same destination price. (R. 473, 475, 842-44, 1070) If there were additional charges, Redd paid them. (R. 474; Px. 50, Ex. 170-76, R. 1636) In January 1970, when Redd persisted in his requests to haul his own product or control the distribution of his product from the refinery by paying the common carrier, Shell not only refused this request, it required the common carriers to make deliveries only to Redd's bulk plants. (R. 842-44, 1069-75, 1078; PX. 13, Ex. 27-28, R. 755-56) After January 1970, for example in the case of Redd's stations at Many Farms, Shell required its common carriers to drive right through Many Farms on the way to Kayenta, unload the product in Redd's Kayenta bulk plant and then reload the product and backhaul it to Many Farms. (R. 477-78, 1126-27)

Such costly make-work methods of distribution were not only contrary to Redd's economic interest, they were contrary to Shell's legitimate economic interest. Accordingly, a highly experienced marketer of refined petroleum products in the Inter-Mountain west testified that the pricing and delivery practices Shell imposed upon Redd had the purpose and effect of controlling the territory in which Redd could resell products purchased from Shell. (R. 852-55, 865-68)

C. Statement of uncontroverted facts on Redd's claim of illegal tying. The franchise provision of Shell's standard jobber sales contract granted Redd a franchise to market under Shell's marketing identification — its trademarks, brand names and color scheme — on the condition Redd purchase all of the refined petroleum products including gasoline he marketed under such identification from Shell. Specifically, the franchise provision provided:

> "FRANCHISE: During the continuation of this contract, buyer shall have the right to sell, under Shell's trademarks, brand names and color scheme, the product purchased hereunder, . . . but Shell reserves for itself the right to sell its products under its trademarks, brand names and color scheme within buyer's territory, and for itself and all other authorized by it, the right to so sell such products outside of buyer's territory. Buyers shall not sell, under Shell's trademarks, brand names or color scheme any product other than the products purchased hereunder. . . ." (PX. 2, Ex. 1, ¶6, R. 438; Px. 14, Ex. 29, R. 782)

Shell supported market acceptance of its identification with extensive advertising to the tune of approximately $15,000,000 per year.

The Shell contract anticipated in accordance with normal industry practice that the jobber would use the franchise granted, and all during the time Redd was a Shell jobber all of his marketing facilities bore Shell's marketing identification. (R. 446-48, 1639-40, 2083) His service stations were painted with Shell's colors, flew the Shell flag in the form of large illuminated Shell clam signs, and all of his gas pumps were identified with Shell decals. In short, these stations looked like any typical Shell station. (R. 2084) His bulk plant and delivery trucks were also painted with Shell's colors and carried the Shell logo. (R. 1040)

Once Redd used Shell's identification, the franchise provision of Shell's contract totally foreclosed Redd from purchasing on a competitive basis any of the refined petroleum products he marketed. Redd could not purchase any of the gasoline he marketed from any source except Shell, even when the gasoline was Shell gasoline. (R. 1065-67, 884) Redd could not purchase gasoline from Conoco, even though Shell sold Conoco the same gasoline

at Ciniza Shell sold to Redd. (PX. 24, Ex. 94, ¶7, R. 1061-62; PX. 25, Ex. 104, ¶4, R. 1061-62) Redd could not purchase gasoline from American, even though Shell supplied American gasoline to Hunt, the Shell branded jobber immediately north of Redd. (R. 2133; PX. 16, Ex. 39, R. 788) He could not purchase gasoline from the Black Oil Company, a competing jobber, even though the gasoline was available at a cheaper price, (R. 513) and even though the gasoline Black Oil marketed was the same gasoline Shell sold Redd. (DX. 24, Ex. 93, R. 1061-62; DX. 25, Ex. 103, R. 1061-62) He could not purchase gasoline from Hunt, even though Hunt was a Shell jobber, because when he did that, Shell sued him. Finally, Redd could not purchase gasoline from a source other than Shell by specification, (R. 1066-68) even though Shell acquired gasoline that it required its jobber to purchase from Shell from non-Shell sources by specification. (PX. 16, Ex. 39, R. 788, R. 319M) Those facts were uncontroverted. (R. 884, 1065-67, 2133; PX. 16, Ex. 39, R. 788; PX. 24, Ex. 93, R. 1061-62; PX. 25, Ex. 103, R. 1061-62)

Shell suffered no such restriction. Shell supplied Hunt, a branded Shell jobber operating under the same franchise provision as Redd, with gasoline which Shell in turn acquired from American, and American manufactured at its Salt Lake refinery. (R. 2133) American did not manufacture special gasoline for Shell. American did not even manufacture gasoline according to Shell's specification. American furnished gasoline to Shell made to American specification. (PX. 16, Ex. 43, R. 788) American's exchange agreement with Shell thus provided, "In essence, products delivered shall conform in the delivering parties normal quality. Specifications for each product covering the respective delivery areas will be exchanged." (PX. 16, Ex. 43, R. 788) The octane rating of the gasoline American supplied Shell was so low the American-Shell

pricing schedule had to be revised. (PX. 16, Ex. 51, R. 788) Those facts were uncontroverted.

Shell sold Shell gasoline in large quantities separately from the right to use Shell's marketing identification .Thus, Shell sold Conoco the identical gasoline from its Ciniza refinery it sold Redd without the Shell identification and at substantially cheaper prices. (PX. 25, Ex. 104, ¶4, R. 1061-62; PX. 24, Ex. 94, ¶7, R. 1061-62) Shell also sold gasoline to its unbranded jobbers from Ciniza that had the same manufacturing characteristic as the gasoline it sold Redd. (R. 834-83; Naughton Depo. at 19-23) Finally, Shell marketed its franchise to Hunt separately from Shell refined gasoline when it required Hunt to purchase American gasoline from Shell. (Hunt Depo. R. 2133) Those facts were uncontroverted.

Shell supplied large quantities of refined petroleum products, including gasoline, pursuant to the franchise provision of Shell's standard jobbers contract. Redd alone purchased over three million ($3,000,000) in products from Shell (R. 538-539) and well over five hundred thousand dollars ($500,000) worth of gasoline. (DX. T-X, Ex. 210-14, R. 940; Gallagher Depo. Ex. 3) Those facts were uncontroverted.

Shell went to great lengths to determine whether gasoline purchased from sources other than Shell was being marketed under the Shell brand. It trespassed on its jobber's property to engage in secret meter readings. (R. 1641-42) Shell even went so far as to steal documents from Shell's jobbers to determine whether the jobbers were adhering to the compulsory purchase provision of the franchise. (PX. 52, Ex. 179-81, R. 1642)

The compulsory purchase of the gasoline Redd marketed under the Shell identification had the normal consequence of a tying arrangement. It foreclosed competition and resulted in Redd having to pay Shell a higher price for gasoline than the price of gasoline marketed on a competitive basis. Thus, in June of 1970, when Shell was selling Redd gasoline at sixteen and three-quarter cents (16¾¢) per gallon, (PX. 26, Ex. 114, R. 1084; R. 1105) it was selling a large coal company in Redd's territory the same gasoline at eleven and a quarter cents (11¼¢) — five cents (5¢) less per gallon and Shell's price to the national account by Shell's own admission was profitable. (PX. 27, Ex. 122, R. 1120)

Shell did not attempt to justify its tying arrangement with Shell jobbers on the ground of the need to maintain quality control. It did not plead any such justification as an affirmative defense, (R. 112-17) and indeed in its answers to Plaintiff's interrogatories, took the position that it did not claim in this case that there was any difference between Shell and non-Shell gasoline.[2] (PX. 15, Ex. 37-38, R. 785-86) Finally, any such attempted justification was conclusively negated by the fact that Shell itself purchased by specification.

D. OPINIONS BELOW

The Tenth Circuit reversed judgment for Redd pursuant to its holding on two fundamental antitrust issues. On Redd's claim of territorial resale restriction, the Circuit reversed and remanded to a new trial on the ground that the explicit territorial resale restriction of Shell's

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[2] *Interrogatory 5*, State with regard to each delivery of (1) regular and (2) premium grade gasoline by Shell to the plaintiff:

• • •

(c) Each physical, chemical, or other characteristic of such gasoline that you claim distinguishes such gasoline from any other gasoline having the same research and motor octane as your gasoline.

Further Answer to Interrogatory 5:

(c) Shell does not make any claim in this case concerning any difference between the physical, chemical or other characteristics Shell gasoline and any other gasoline delivered to plaintiff or third persons. . . .

jobber contract enforced by the termination provision of that contract "standing alone does not create a *per se* violation of the Sherman Act . . . there must be a 'firm and resolute' action by the seller to enforce such limitations." (A-6) On Redd's claim of illegal tying, the Court reversed and held as a matter of law that there was no tying arrangement on the ground the franchise to use Shell's marketing identification was inseparable from refined petroleum products Shell compelled its jobbers to purchase from Shell. (A-3 - A-4) The Circuit further held that Shell could sue Redd for what Redd did, that is selling foreign gasoline under the Shell identification and reinstated Shell's counterclaim. (A-6 - A-7)

REASONS FOR GRANTING THE WRIT

A. The circuit court's decision squarely conflicts with this Court's decision in *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). The circuit court's holding that explicit agreements between a manufacturer and each of its jobbers to restrict the territory in which such jobbers can resell the products purchased from manufacturers is not a *per se* violation of Section 1 of the Sherman Act absent "firm and resolute" action by the manufacturer to enforce the restriction squarely conflicts with this Court's decision in *Schwinn*. In *Schwinn*, this Court held:

> Under the Sherman Act, it is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it. . . Such restraints are so obviously destructive of competition that their mere existence is enough. (388 U.S. at 379)

Contrary to *Schwinn*, under the circuit's decision an explicit territorial resale restriction is not enough. "Firm

and resolute" action enforcing the restriction becomes an essential element of the *per se* violation.

Nothing is more destructive of private antitrust enforcement than a circuit's disregard of a clear holding of this Court establishing the *per se* parameters of the Sherman Act. This Court itself has pointed out that "without the per se rules, businessmen would be left with little to aid them in predicting in any particular case what courts will find to be legal and illegal under the Sherman Act." *U.S. v. Topco Assoc., Inc.*, 405 U.S. 596, 609 n.10 (1972).

The decision below not only erodes the predictability of the *per se* rule of *Schwinn*, it is fundamentally inconsistent with the rationale of that decision. This Court in *Schwinn* determined that franchising would not become a general exception to the comprehensive policy of competition reflected in the Sherman Act. This Court in that case categorically rejected restrictions as to where and to whom a jobber or retailer can resell goods purchased from his supplier, as inconsistent with competitive freedom of independent businessmen guaranteed by the Act. An agreement between Shell and each of its branded jobbers restricting the territory in which each jobber can resell products purchased from Shell patently suppresses intrabrand competition among Shell and its jobbers. Such territorial restrictions are destructive of intrabrand competition regardless of whether such restrictions are enforced by the manufacturer or acquiesced in by the jobbers. Even if each jobber perceived that acquiescence in an explicit territorial restriction was in the jobber's interest and no "firm and resolute" action by the supplier to enforce the restriction was necessary, the public interest in the benefits of competition reflected in the prohibitions of the Sherman Act would still be thwarted. What difference does coercive conduct by the supplier make to the pur-

pose of the vertical *per se* prohibitions of Section 1 of the Sherman Act? Vertical resale restrictions whether as to territory or price are fundamentally pernicious to competition because they are agreed upon. The suppression of intrabrand competition is complete, regardless of whether Shell's jobbers acquiesce in the restriction or such restrictions are actively enforced by Shell.

A rule, moreover, of requiring "firm and resolute" enforcement as an essential element of a *per se* vertical violation undermines the effectiveness of the *per se* prohibition. The greater the disparity between the economic power of the manufacturer and its wholesalers and retailers, the less likely it is that the manufacturer will have to resort to "firm and resolute" action to enforce anticompetitive restrictions. Strong suppliers, such as Shell, may well be able to compel compliance with clear anticompetitive restraints through the economic power inherent in their relationship with their jobbers without the need to resort to overt action. That very risk was the foundation of this Court's decision in *FTC v. Texaco, Inc.*, 393 U.S. 223 (1968). The "firm and resolute" limitation on the *per se* rule of *Schwinn* opens the door for the evasion of that rule by the most powerful members of the economy. Judge Murrah made the point in his dissent from the Tenth Circuit's adoption of the "firm and resolute" requirement: "I do not believe that the legality of a contract such as this one should be made to turn on whether the contractual restrictions are 'firmly and resolutely' enforced. Otherwise, *Schwinn* is a shambles." *Colorado Pump and Supply Co. v. Febco, Inc.*, 472 F.2d 637, 642 (10th Cir.), *cert. denied*, 411 U.S. 987 (1973) (*Febco* did not involve explicit territorial resale restriction.)

B. The Tenth Circuit's "firm and resolute" limitation on Schwinn conflicts with the decisions of the Ninth and Fifth Circuits. Judge Murrah's view is the prevailing view in the Ninth and Fifth Circuits. Within two weeks of the Tenth Circuit's decision below, the Ninth Circuit, in reversing a lower court's refusal to apply the *per se* rule of *Schwinn*, read *Schwinn* to mean what it said. *Noble v. McClatchy Newspapers*, ... F.2d ...., [1975-2 Trade Cas. ¶ 60,594] (9th Cir. Nov. 14, 1975) In *Noble* the Ninth Circuit followed the literal *per se* rule of *Schwinn* and held:

> As we read the *Schwinn* opinion, manufacturer may avoid the per se rule only by vertical integration or adoption of agency or consignment methods of distribution. Manufacturers who wish to enjoy the advantages of distribution through independent entrepreneurs must be prepared to accept the burden of *Schwinn*. (1975-2 Trade Cas. at page 67,634)

The Ninth Circuit not only followed the *per se* rule of *Schwinn*, it supported the adoption of that prohibition. *Noble*, in turn, followed the Fifth Circuit's decision in *Copper Liquor, Inc. v. The Adolph Coors Company*, 506 F.2d 934 (5th Cir. 1975). Judge Wisdom, in a thoughtful analysis, examined and rejected policy arguments some commentators have directed against *Schwinn*. The Fifth Circuit concluded, as the Ninth Circuit has, that *Schwinn* laid down an unqualified prohibition against territorial resale restrictions and expressly considered and rejected the Tenth Circuit's "firm and resolute" limitation on the *Schwinn* doctrine. (*Id.* at 940-44)

In an economy in which nationwide distribution is commonplace, businessmen and litigants are entitled to know whether the Ninth and the Fifth Circuits' adherence to the *per se* rule of *Schwinn* or the Tenth Circuit's "firm and resolute" limitation on that doctrine are the law of

the land. The *per se* rule of *Schwinn* as this Court indicated in *U.S. v. Topco Assoc., Inc.*, 405 U.S. 596 (1972), was only adopted by the Court after careful consideration and precedential evolution. (*See also, White Motor Co. v. U.S.*, 372 U.S. 253 (1963) The rule, as the thoughtful opinions of the Ninth and Fifth Circuits demonstrate, has withstood the test of time and critical analysis. If the *per se* rule of *Schwinn* against customer and territorial resale restrictions is now to be limited or modified, it should be done by this Court. Even assuming arguendo, some limitation or modification is warranted, any such limitation or modification must reflect a balancing of legitmate competitive interests germane to the fundamental policy of the Sherman Act. The "firm and resolute" limitation of the Tenth Circuit reflects no such considerations. It merely opens an opportunity for evasion of fundamental policy by a debilitating graft upon the *Schwinn* doctrine.

C. The decision of the Tenth Circuit conflicts with the decisions of every other circuit that has passed on the question of whether a trademark license is a "separate" item for tying purposes. Tying arrangements have been consistently condemned by this Court under both the Sherman and Clayton Acts, for as Justice Frankfurter said, such arrangements "serve hardly any purpose beyond the suppression of competition," *Standard Oil Co. v. U.S.*, 337 U.S. 293, 305-06 (1949). This Court has held that there are three basic elements necessary to establish the *per se* illegality of tying arrangements under Section 1 of the Sherman Act: (1) "Separability" of tying and tied items; (2) "sufficient economic power" in the tying product; and (3) a "not insubstantial amount" of commerce, *Fortner Enterprises, Inc. v. U.S. Steel Corp.*, 394 U.S. 495 (1969); *Northern Pacific Railway Co. v. U.S.*, 356 U.S. 1 (1958); *International Salt Co., Inc. v. U.S.*, 332

U.S. 392 (1947); *International Business Machines Corp. v. U.S.*, 298 U.S. 131 (1936). There is no question that Shell granted Redd and other Shell jobbers under the franchise provision of its standard jobber sales contract the right to use Shell's marketing identification — its trademark, brand names and color scheme — on the condition that all of the refined petroleum products, including gasoline, marketed by such jobbers under Shell's marketing identification be purchased exclusively from Shell. (PX. 2, Ex. 2, R. 438) The threshold question, therefore, as this Court noted in *Fortner Enterprises, Inc. v. U.S. Steel Corp.*, 394 U.S. 495 (1969), was "the problem of determining whether two separate products are in fact involved." (394 U.S. at 507)

The Tenth Circuit disposed of that issue as a matter of law and held Shell's marketing identification "inseparable" from the refined petroleum products Shell required Redd and other branded jobbers to purchase from Shell. (A-4) The Circuit's decision directly conflicts with every other circuit that has passed on that issue. The Ninth, Fifth and Second Circuits have all held a trademark license in the form of a marketing franchise is a separate item for tying purposes from the products marketed under the franchise, *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972); *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.*, 463 F.2d 1002 (5th Cir.), *cert. denied*, 409 U.S. 1086 (1972); *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dism'd*, 381 U.S. 125 (1965), and have resolved that question diametrically against the decision of the Tenth Circuit as a matter of law. The position of these circuits has been consistently followed in the trial courts and by the Federal Trade Commission. *Detroit City Dairy, Inc. v. Kowalski Sausage Co., Inc.*, 393 F. Supp. 453 (E. D. Mich. 1975); *Ungar v. Dunkin' Donuts of America*,

Inc., 1975 Trade Cas. ¶ 60,204 (E. D. Pa. 1975); *Hawkins v. Holiday Inns, Inc.*, 1975 Trade Cas. ¶ 60,153 (W. D. Tenn. 1975); *Falls Church Bratwursthaus, Inc. v. Bratwursthaus Mgmt. Corp.*, 354 F.Supp. 1237 (E. D. Va. 1973); *FTC v. Phillips Petroleum Co.*, 3 Trade Reg. Rep. ¶ 20,716 (December 27, 1974) (FTC cease and desist order). Their doctrine has been applied from trademarks representing food items to trademarks representing parts and rebuilt compressors, *Chicken Delight, Warriner*. The rationale of these decisions, ably articulated by the Ninth Circuit in *Chicken Delight,* is premised on the recognition that trademarks under the Lanham Act are no longer a representation of product source but product quality.[3] Trademark licensing is therefore permissible and in the form of modern franchising has become very big business indeed. Franchising accounts for ten (10) per cent of the gross national product and at least twenty-five (25) per cent of all retail sales. At least 400,000 businessmen are franchisees and 70 to 90 billion dollars worth of goods are sold through franchised outlets, McCarthy, *Trademarks Franchising and Antitrust, The Trouble with Tie-ins,* 50 Calif. L. Rev. 1085, 1086 (1970); FTC, STAFF REPORT ON LEGAL PROBLEMS IN CONNECTION WITH FRANCHISE AGREEMENTS (1969). A trademark license, however, cannot be used by the owner of the mark to monopolize the supply of products to the owner's franchisees, for the legislative history of the Lanham Act makes clear and this Court long ago held a trademark may not be used as a device to evade the prohibitions of the antitrust laws, *Timken Roller Bearing Co. v. U.S.*, 341 U.S. 593 (1951); *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972); McCarthy, *supra.*

[3]Under the early source theory of trademark protection licensing was viewed as theoretically impossible since licensing meant the mark was being used by persons not associated with the actual manufacture of the product. *MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co.*, 113 F. 468 (8th Cir. 1901).

The circuit found these precedents inapplicable and their rationale unpersuasive. It said of *Chicken Delight,* "Also we do not necessarily agree with its analysis of the problem." (A-4) The circuit held, contrary to the record, that Shell's franchise agreement with its branded jobbers was nothing more than a permissive trademark license to sell Shell gasoline as Shell gasoline. It found Shell's marks were designed for the sale of liquid product in bulk and were therefore analogous to the sale of a product in "one marked package." (A-4)

The circuit's analysis was an exercise in economic fantasy. The anti-competitive consequence of Shell's franchising arrangement with its jobbers was that the jobbers could not sell Shell gasoline as Shell gasoline. They could not purchase Shell gasoline from other Shell jobbers. They could not purchase Shell gasoline from Conoco, even though Shell sold Conoco the identical gasoline that it compelled its jobbers to purchase from Shell. Redd could not purchase gasoline from competing jobbers, even though that gasoline was available at lower prices and even though that gasoline was again the identical gasoline Shell sold Redd. (R. 1065-67, 884, 2133; PX. 16, Ex. 39, R. 788; PX. 24, Ex. 93, R. 1061-62; PX. 25, Ex. 103, R. 1061-62; Redd Depo. at 44-46) Under the franchise agreement, Shell jobbers could not purchase gasoline from American, even though Shell purchased gasoline from American pursuant to exchange agreements and marketed it under the Shell brand. (PX. 2, Ex. 3, ¶ 6, R. 438; PX. 18, Ex. 75, 77, 81. 85, R. 813) Finally, Shell jobbers could not purchase gasoline by specification (R. 1066-68), even though Shell purchased gasoline from American by specification and indeed purchased gasoline not by Shell specification, but by American specification. (PX. 16, Ex. 39, R. 788; R. 319M)

Certainly, Shell's franchise arrangement with its branded jobbers did not merely provide for the sale of "one marked package." Shell's branded jobbers having identified their stations and distribution facilities with Shell's marketing identification were not required to purchase a gallon, a barrel, or a transport load of gasoline or diesel fuel from Shell, they were required to purchase the total supply of those products they marketed under the Shell identification from Shell alone and not from any other source.

No trademark license is required to sell Ford cars as Ford cars, Browning shotguns as Browning shotguns, or Ivory soap as Ivory soap. It is a far different matter when the manufacturer's relationship with its dealers grants the dealer the right to utilize the manufacturer's marketing identification but compels the identifying dealer as a condition of such use to purchase all of the products marketed under such identification from the manufacturer. An agreement between Ford and its dealers authorizing them to use the Ford identification on the condition that all cars and parts marketed by such dealers under such identification be purchased from Ford ties the use of Ford's marketing identification to the purchase of cars and parts and forecloses competition for the supply of those products.

The circuit court also predicated its holding of non-separability on the fact that Shell did not market its marketing identification separately from its refined petroleum products. (A-4) Certainly, that was not the case with regard to Shell's sale of American gasoline under the Shell brand. In that case, Shell was doing nothing more than selling the Shell identification to its jobbers and requiring them to purchase American gasoline from Shell. More importantly, as *Chicken Delight* squarely

holds, it is not a question of whether the trademark license is marketed separately by the owner of the mark. It is a question of whether the products associated with the mark are marketed separately by the industry or the owner. (448 F.2d at 48) In this case, Shell at the very refinery from which it supplied Redd had a contract with Continental Oil Company under which Shell supplied Continental Oil Company substantial quantities, 1700 barrels per day, of the identical gasoline it sold to Redd on a non-Shell identified basis and at substantially lower prices. (PX. 24, Ex. 93, R. 1061-62) Shell also sold substantial quantities of gasoline with the same manufacturing characteristics on a non-Shell identified basis to unbranded jobbers. (R. 834-83; Naughton Depo. at 19-23) The authorities make clear that that is the test of separability — whether the items have been or can be sold separately, *U.S. v. Jerrold Electronics Corp.*, 187 F.Supp. 545 (E. D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961); *Siegel v. Chicken Delight, Inc., supra; Kugler v. AAMCO Automatic Transmissions, Inc.*, 337 F. Supp. 872 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972). Indeed, the most effective use of the economic power of a tying item may be to offer it for sale only on a tying basis, *see International Salt Co., Inc. v. U.S.*, 332 U.S. 392 (1947).

The circuit court further found the right to use Shell's marketing identification was not a "franchise" irrespective of the fact that the Shell jobber sales contract designated Shell's license of its branded jobbers to use such identification as a "FRANCHISE." (A-3) The economic facts were, of course, Redd, as other Shell jobbers, utilized Shell's marketing identification in his business as a marketing franchise and he identified his stations, including a station he leased from Shell, as Shell stations. He also identified his bulk plants and trucks with Shell's marketing identification. (R. 446-48, 1639-41) The ques-

tion for antitrust purposes is not whether all franchises are the same, but whether a trademark license in the form of a marketing franchise or merely a license to use the marketing identification, including the trademarks, of a supplier grants the supplier a monopoly to control the supply of products to the licensee. More specifically, in the case of Shell the question is whether a trademark license in the form of a marketing franchise or a license to use Shell's marketing identification grants Shell a monopoly to control the supply of refined petroleum products marketed by Shell's jobbers under Shell's identification when Shell sells those products separately from its marketing identification and purchases those products for sale under its identification by specification.

The consequences of the arrangement, regardless of whether it is denominated a "franchise," are precisely the consequences against which the tying prohibitions of the Sherman and Clayton Acts are aimed. Through its arrangement with Shell jobbers, Shell, at the least, totally deprives them of any opportunity to purchase refined petroleum products, including gasoline, marketed under the Shell identification on a competitive basis. Correspondingly, competitors of Shell are foreclosed from supplying products marketed on that basis. As a practical matter, Shell, through its arrangement with its jobbers, totally controls the supply of products to such jobbers and forecloses all competition in supply.

The issue raised is not whether the arrangement is necessary to control the quality of product marketed under Shell's identification, but whether in order to insure the quality of the product marketed under Shell's identification Shell must control the supply of that product. The question of quality control would only be raised if Shell attempted to justify what obviously is in fact a tying

arrangement with its jobbers. Such justification was never attempted by Shell. (PX. 15, Ex. 37, R. 785-86) It was never pled. (R. 112-17) It was never proved, and indeed it was conclusively negated by the fact that Shell purchased by specification, *U.S. v. Jerrold Electronics Corp.*, 187 F. Supp. 545 (E. D. Pa, 1960), *aff'd per curiam*, 365 U.S. 567 (1961); *Standard Oil Co. v. U.S.*, 337 U.S. 293 (1949); *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

D. The question of whether major oil companies can use trademark licenses to control the supply of gasoline and other refined petroleum products to their branded jobbers and dealers conflicts with the rationale of this Court's decision in *Timken Roller Bearing Co. v. U.S.*, 341 U.S. 593 (1951) and is of substantial importance to the petroleum industry and to the nation. Twenty-five years ago this Court, in *Timken* stated, "A trademark cannot be legally used as a device for Sherman Act violation." (*Id.* at 599) The Court made this statement in the context of rejecting a justification of an international cartel on the ground that it was reasonably necessary to implement a valid trademark licensing system. The decision of the trial court affirmed by the Supreme Court in *Timken* even spoke more comprehensively of the problem and of the clear intent of Congress to make the Lanham Act subservient to the comprehensive policy of competition reflected in the antitrust laws. The trial court said:

> The trade mark may become a detrimental weapon if it used to serve a harmful or injurious purpose. If it becomes a tool to circumvent free enterprise and unbridled competition, public policy dictates that the rights enjoyed by its ownership be kept within their proper bounds. If a trade mark may be the legal basis for allocating world markets, fixing of prices, restricting competition,

> the unfailing device has been found to destroy every vestige of inhibition set up by the Sherman Act. The rights pertaining to trade marks and trade names were well known long before that legislative enactment was passed by Congress. *It is certain that it was never intended that the consequences of violations of the antitrust laws may be escaped by the licensing of trade marks.*

Timken Roller Bearing Co. v. U.S., 83 F. Supp. 284, 316 (N. D. Ohio 1949) (Emphasis supplied). The decision of the Tenth Circuit simply cannot be squared with the rationale of *Timken*.

The use by major oil companies of trademark licenses to control the supply of refined petroleum products to their branded jobbers and dealers severely curtails competition in supply in what is perhaps the nation's most important industry. Under the Tenth Circuit's decision below, every major oil company can control the supply of refined petroleum products to its branded jobbers and dealers through trademark licensing, even though the major oil companies extensively exchange refined petroleum products among themselves for sale on a branded basis by specification. FTC, STAFF REPORT ON THE PETROLEUM INDUSTRY, ch. IV (1973). Branded jobbers and dealers under the trademark licensing arrangement sanctioned by the Tenth Circuit are deprived of the competitive opportunity enjoyed by major oil companies, that is to purchase the products they market on a branded basis by specification. Correspondingly, independent refiners and marketers are foreclosed from competing with major oil companies and major oil companies with each other in the supply of gasoline and other refined petroleum products to branded dealers and jobbers.

The suppression of competition is aggravated by the structure of the industry. In 1970, eight (8) major oil

companies accounted for fifty-eight (58) per cent of the domestic refining capacity of the United States and fifteen (15) major oil companies accounted for over eighty (80) per cent of that capacity. The top eight (8) refiners were also the top eight (8) crude producers and the top eight (8) marketers of gasoline. Eight (8) companies in 1970 controlled fifty-five (55) percent of the gasoline marketed in the country, and fifteen (15) companies controlled over seventy-five (75) per cent. (FTC, STAFF REPORT at II-14, II-16, II-22, II-24)

Major oil company domination of refining and marketing not only demonstrates the extensive impact of the Tenth Circuit's decision, but raises the risk that adherence to that decision will result in even further concentration in the industry. If major oil companies can realize higher revenues on the sale of gasoline and other refined petroleum products by foreclosing competition in the supply of product marketed under their respective brands, in periods of short supply less and less of their refining capacity will come to market either on an unbranded basis or through independent marketers. Competition in the industry will be further curtailed and prices will continue to increase in a now altogether too familiar pattern.

Assuring competition in the supply of refined products marketed on a branded basis may indeed be the most effective way this country has of securing for the public any benefit from competition in this industry. The impact of OPEC upon the worldwide price of crude oil is common knowledge and apparently beyond the control of our national policy. Perhaps the last opportunity for the public to have demand impact on the price paid for refined petroleum products is by open competition in the supply of those products. Such demand in the major mar-

kets of the free world may even unleash backward competitive pressures in this highly integrated industry. This opportunity, however, will be lost if major oil companies can use trademark licenses as a device to monopolize the supply of refined petroleum products to their branded jobbers and dealers.

CONCLUSION

The Petition for Certiorari should be granted.

Respectfully submitted,

By .....

DANIEL L. BERMAN
DOUGLAS J. PARRY
Counsel for Petitioner

January 29, 1976

CERTIFICATE OF SERVICE

I, DOUGLAS J. PARRY, Attorney for Petitioner, Keith B. Redd, d/b/a Abajo Petroleum, do hereby certify that on this .... day of January, 1976, a copy of the foregoing Petition for a Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit has been served on the following:

WILLIAM SIMON, Esq.
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Attorney of Record for the Respondent, by mailing the same to them through the United States Mail, postage prepaid.

APPENDIX A

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

No. 74-1800

KEITH B. REDD, d/b/a ABAJO PETROLEUM,
Appellee,

vs.

SHELL OIL COMPANY,
Appellant.

Appeal From The United States District Court
For The District of Utah
Central Division
(D.C. # C 104-71)

Before HILL, SETH and McWILLIAMS, Circuit Judges.

Filed November 3, 1975

SETH, CIRCUIT JUDGE: The plaintiff, Keith B. Redd, has been engaged in the business of marketing gasoline and other petroleum products in Utah and Arizona, doing business as Abajo Petroleum. As to defendant Shell, he operated as a "jobber," that is, one who resells at wholesale petroleum products purchased from Shell to service stations and other commercial accounts. Redd's contract with Shell was known as a "sales contract." It was terminated by Shell, and plaintiff began this action.

Redd's original complaint charged (1) that Shell and Continental Oil Company had conspired in violation of the antitrust laws to eliminate competition, to restrict his territory and to terminate his contract with Shell, and (2) that Shell had breached its "jobber" contract. Shell answered with a general denial and counterclaimed on two

counts, (1) payment due on open account, and (2) damages for illegally "palming off" other gasoline under the Shell trademark. Continental was dismissed from the suit. Redd filed an amended complaint which realleged claims of territorial restriction and breach of contract and asserted in a new count that Shell violated antitrust law by illegally "tying" the use of its trademark to purchase of its gasoline.

The trial court decided several issues as questions of law on pretrial motions for summary judgment. The remaining issues, basically damage questions, were submitted to a jury which returned a verdict for plaintiff. The defendant has taken this appeal.

A basic pretrial determination made by the trial court was that the jobber sales contract between plaintiff and Shell contained a tying arrangement in violation of the Sherman Act, 15 U.S.C. § 1. Should there be such an arrangement, it would be a per se violation if the requisite economic power and market control are shown. The Supreme Court in Northern Pacific Ry. v. United States, 356 U.S. 1, and in Times-Picayune Publishing Co. v. United States, 345 U.S. 594, has defined a tying arrangement as an agreement whereby a product is sold on the condition that the buyer also purchase a different product, the "tied product," from the seller. The consequences in the market of the tied product are apparent. A variation on the typical tying arrangement is also expressed in section 3 of the Clayton Act, 15 U.S.C. § 14.

The trial court thus decided as a matter of law that the sales contract constituted a tying arrangement between the gasoline sold to plaintiff under the contract as one "product," and the Shell trademark which he was permitted to use thereunder if he wished to do so as the other "product." The gasoline (and related petroleum products) and the trademark thus were held to be the two distinct products by the trial court's order on the tying issue. The order was entered on plaintiff's motion for partial summary judgment and thus decided the liability issue under section 1 of the Sherman Act before the case was tried to a jury.

We will consider only the "two product" aspect of the arrangement, and the trial court's view thereof. The contract between the parties permitted the plaintiff to use the Shell trademark in connection with the sale of petroleum products. It also prohibited the plaintiff from selling the products from other sources under the Shell trademark. The contract, referring to plaintiff as the Buyer, in part provided:

> ". . . Buyer shall have the right to sell, under Shell's trademark, brand names and color schemes, the products purchased hereunder, for tank truck delivery. . . ."

Also it stated:

> ". . . Buyer shall not sell, under Shell's trademark, brand names, or color scheme . . . any product other than . . . purchased hereunder. . . ."

The contract was a sales agreement to create a jobber relationship between Shell and plaintiff as above mentioned. The plaintiff was in business, had his own bulk stations and trucks, and did business as Abajo Petroleum. He was not doing business as Shell Oil Company, and he sold products represented to be from sources other than Shell. He had his own business enterprise and entity identified under his own name. Thus he did not have a "franchise" as the term has come to be used. The trademark use had nothing to do with the manner in which plaintiff did business, and he was not obligated to sell Shell gasoline as Shell gasoline. Thus the trademark could

be a representation, if plaintiff wanted to make it, that the gasoline was Shell gasoline and thus either made by or for Shell. Plaintiff was to do nothing with the gasoline other than to buy it from Shell, receive it, store it, and transport it to his customers. The record shows that when the contract in question terminated, the next day he became a jobber for Exxon.

The permissive trademark use did not in any way transform the mark into a separate product to be sold to plaintiff. The provisions for use of the trademark were designed for the sale of a liquid product in bulk. The most important product sold was the gasoline, and this was a typical sale of a trademark product. *See* 15 U.S.C. § 112; Associated Press v. Taft-Ingalls Corp., 340 F.2d 753 (6th Cir.), and Trail Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir.). If the product had been packaged in some way, the consequences would have been the same, and the product sold as one marked package. There was certainly no one else in the market selling the Shell trademark, and Shell was not selling its trademark separately; it cannot be considered as a "product."

The plaintiff asserts that the case of Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir.), is persuasive. This concerned a typical fast food franchise which consisted basically of the use of a trademark or name if the business was conducted in a prescribed way and in a place with a required appearance. This is quite different from the typical sale of a trademark product as we have before us. *See* Drexel Enterprises, Inc. v. Richardson, 312 F.2d 525 (10th Cir.), and National Nu Grape Co. v. Guest, 164 F.2d 874 (10th Cir.). The case is not in point sufficiently to assist us in solving our problem. Also we do not necessarily agree with its analysis of the problem. *See also* Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463

F.2d 1002 (5th Cir.); Susser v. Carvel Corp., 332 F.2d 505 (2d Cir.); Aamco Automatic Transmissions, Inc. v. Tayloe, 368 F.Supp. 1283 (E.D. Pa.), for decisions related to the *Chicken Delight* opinion.

The trial court was thus in error in considering the trademark as a separate product sold under a tying arrangement with the gasoline. We said in Colorado Pump & Supply Co. v. Febco., Inc., 472 F.2d 637 (10th Cir.), that two different products must be involved before there can be a tying arrangement, and the essential ingredients of a prohibited tying arrangement were therein described. *See also* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 and the dissent therein. This error in the determination of liability requires a reversal of this case, as much of what followed in the proceedings was based thereon. There are some other related issues and some separate issues which should be decided on this appeal.

The trial court also decided as a matter of law that there was a per se violation of the Sherman Act in the contract provisions relating to the territory in which plaintiff was to market. This violation was considered by the court to defeat, on summary judgment motion, Shell's counterclaim against plaintiff for passing off gasoline purchased from other sources as Shell gasoline. *See* trial court's order of February 15, 1974, granting plaintiff summary judgment on Shell's counterclaim. The determination is carried over into the trial court's instructions.

The sales agreement did contain definite provisions as to plaintiff's "territory," and a map was attached to the agreement on which it was so marked. The agreement thus contained clear restrictions on the area within which plaintiff could sell.

This court, in Colorado Pump & Supply Co. v. Febco, Inc., 472 F.2d 637 (10th Cir.), expressly held that the existence of such contract provisions, standing alone, does not create a per se violation of the Sherman Act. The cited case was based on the opinion in United States v. Arnold, Schwinn & Co., 388 U.S. 365, and cited with approval Janel Sales Corp. v. Lanvin Parfums, Inc., 396 F.2d 398 (2d Cir.). This court thus held that in addition to contract provisions for territorial restrictions, there must be a "firm and resolute" action by the seller to enforce such limitations. The "firm and resolute" terminology comes from the trial court's characterization of the defendants' efforts in the *Schwinn* case. Adolph Coors Co. v. FTC, 497 F.2d 1178 (10th Cir.), was cited as a contrasting case wherein Coors had "rigorously enforced its territorial restrictions." For an application of similar principles, *see* Belliston v. Texaco, Inc., 455 F.2d 175 (10th Cir.).

In view of the above cited cases, it was error for the trial court to decide as a matter of law that the existence of contractual limitations was sufficient. For there to be a violation, the fact question of enforcement or compliance had to be determined. This error was also carried over into the instructions to the jury wherein the court stated in two places that the territorial restrictions in the agreement constituted a per se violation.

As mentioned above, the trial court on summary judgment eliminated a counterclaim of defendant. During the course of discovery, the defendant asserts that it became known to it for the first time that plaintiff had been selling gasoline purchased from Plateau and other sources as Shell gasoline. Defendant then counterclaimed for trademark infringement and "palming off" in violation of the Lanham Act, 15 U.S.C. § 1114. The defendant sought summary judgment as did the plaintiff. The plaintiff's

motion was granted on the basis of the tying arrangement above considered. Upon our holding the trial court was in error in so disposing of this counterclaim, and it must be reinstated.

There were further disagreements between the parties as to the meaning of certain of the contract provisions specially as to commission payments under certain conditions. We do not decide these issues in view of the disposition of the case.

We must reverse. The judgment is set aside and the case is remanded for further proceedings in accordance with this opinion.

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH

C 104-71

KEITH B. REDD, d/b/a ABAJO PETROLEUM,

Plaintiff,

vs.

SHELL OIL COMPANY,

Defendant.

Filed December 2, 1974

RITTER, D.J.: On February 15, 1974, the Court determined as a matter of law that the defendant Shell violated Section 1 of the Sherman Act, 15 U.S.C. § 1, by tying the licensing of the defendant Shell's trademarks, brand names and color scheme to the sale and distribution of gasoline to the plaintiff [1974-1 TRADE CASES ¶ 75,064]. The Court also determined as a matter of law that Shell was barred from maintaining an action for trademark infringement, on the ground that Shell had utilized its trademarks to violate the antitrust laws. The Opinion of the Court is set forth below.

I. *Statement of Uncontroverted Facts*

The plaintiff, Keith B. Redd, doing business as Abajo Petroleum, has been engaged in the business of marketing gasoline and other petroleum products in southeastern Utah and northeastern Arizona since 1958. Redd operates as a jobber distributing wholesale petroleum products to service stations and other commercial accounts in this geographical area. Redd also supplied three service stations in which he held an ownership interest.

Shell Oil Company engaged in the production, transportation, refining and marketing of petroleum products

on a worldwide basis. Shell's 1971 Annual Report states that as of December 31, 1971, Shell's total assets were $4,646,282,000. Shell's net income was in excess of $244,504,000 for 1971. Gross liquid hydrocarbon production in 1971 amounted to 731,000 barrels daily. Shell sold 1,020,000 barrels daily of refined products. In addition, Shell has the following Shell trademarks which are utilized in the sale of gasoline: "Shell", "Shell Design", and "Shell of the Future".

Redd entered into a contract with Shell on April 8, 1964, wherein Redd became a branded Shell jobber. As a branded Shell jobber, Redd purchased petroleum products from Shell and resold the products to service stations and other large industrial accounts.

Immediately prior to April 8, 1964, Shell acquired the Ciniza, New Mexico, refinery from El Paso Natural Gas Products Company. El Paso had supplied Redd prior to Shell's acquisition of the Ciniza Refinery. After the acquisition, Shell sent Redd a letter explaining that Shell had acquired the refinery and that Shell was interested in establishing a supply arrangement with Redd. Shell contacted Redd and presented Redd with Shell's standard form 0422-1 (Rev. 7-61) Sales Contract for Redd's signature. The standard form contract on its face contains terms that tie the use of Shell's trademarks to the purchase of gasoline and other petroleum products. Paragraph 6 of the contract states:

> 6. Franchise: During the continuance of this Contract, Buyer shall have the right to sell, under Shell's trademarks, brand names and color scheme, the products purchased hereunder, for tank truck delivery within the territory outlined in red on the map attached hereto (herein called "Buyer's territory"); but Shell reserves for itself the right to sell its products under its trademarks, brand names and color

scheme within Buyer's territory, and for itself and all others authorized by it, the right so to sell such products outside of Buyer's territory. *Buyer shall not sell, under Shell's trademarks, brand names or color scheme: any product other than the products purchased hereunder; or any mixture or adulteration of any product purchased hereunder with any other product (whether or not purchased hereunder) or material; or any product purchased hereunder outside of, or for delivery or resale outside of, Buyer's territory (Shell's decision to be final as to whether or not any location is within Buyer's territory). If Buyer ceases to purchase products hereunder or if this Contract terminates for any reason, Buyer shall immediately and completely discontinue the use of Shell's trademarks, brand names and color scheme,* and refrain from the use of any mark, name or color scheme similar thereto; and if Buyer fails so to do, Shell shall have the right, at Buyer's expense, to enter any premises owned, occupied or controlled by Buyer, and to remove, obliterate, paint over or otherwise destroy Shell's or any similar marks, brand names and color scheme wherever found. At any time after any termination of this Contract for any reason and within thirty (30) days prior thereto, or at any time after the giving or receipt of any notice of termination of this Contract, Buyer, Shell and any present or future distributor of "Shell" products shall each have the right to solicit and execute sales contracts for their respective products with customers to whom Buyer has theretofore been selling "Shell" products; and neither Buyer, Shell, any such distributor nor any such customer shall incur any liability to Shell or Buyer by reason of the solicitation, execution or performance of such contracts or the consequent nonperformance of any such customer's outstanding contract with Buyer. [Emphasis added.]

The portions of paragraph 6 of Shell's standard form contract emphasized above specifically restrict the use of Shell's trademarks to the sale of products purchased from

Shell. Furthermore, paragraph 1 of the contract contains a range between a minimum and maximum amount of petroleum products that Redd was obligated to purchase from Shell in order to remain a branded jobber. The purpose of the range is to insure that the branded jobber would purchase all of his petroleum products from Shell Oil Company. Paragraph 1 states:

> 1. Products-Quantities: Shell shall sell and deliver to Buyer, and Buyer shall purchase and receive from Shell, such quantities as Buyer shall order from time to time, of the respective "Shell" products for which minimum and maximum quantities are specified in the following schedule, but not less nor more (except at Shell's option) of each product, during each contract-year, than the respective minimum and maximum quantities thereof specified in the schedule (in gallons unless otherwise specified):

	Quantities (Gallons)	
"Shell" Product	Minimum	Maximum
Regular Gasoline	534,000	1,602,000
Premium Gasoline	267,000	801,000
Aviation Gasoline		
Grade 80		
Grade 91		
Grade 100		
Grade 115		
Automotive Lubricants	2,500	7,500
Aviation Lubricants		
Marine Lubricants		
Industrial Lubricants	6,200	18,600
Specialties	500	1,500
Anti-Freeze	1,000	3,000
Special Products		
Kerosene	4,000	12,000
Range Fuel		
Stove Oil		
Furnace Oil	2,000	6,000
Premium "Dieseline"		
"Dieseline" 40		
"Dieseline" 50	1,500	4,500

No. 4 Fuel Oil
Light Fuel Oil
No. 5 Fuel Oil
Medium Fuel Oil
No. 6 Fuel Oil
Industrial Fuel Oil

Shell may, at its option from time to time sell and deliver to Buyer such "Shell" products other than those for which quantities are specified, as Buyer may desire to purchase and receive from Shell; and any such sales and purchases shall be on the terms and conditions herein provided, except as otherwise agreed in writing.

Paragraphs 4 and 5 of the Redd-Shell contract state:

> 4. Deliveries: Buyer shall purchase and receive each product in approximately equal quantities during each calendar month, subject to seasonal variations in Buyer's requirements. Shell shall not be obligated to make any delivery: (a) at, or for shipment to, any destination(s) other than Blanding, Utah and Kayenta, Arizona.
>
> 5. Terms: Terms of payment shall be cash on delivery or such credit terms as may be extended by Shell, which may be altered or revoked by Shell at any time.

The contract does not provide that Shell retain any title to the products after sale to Redd. In fact, the place of delivery provision (paragraph 4) in conjunction with the credit terms provision (paragraph 5) indicates that it was the parties' intention to transfer title at the time of sale. Even so, Shell still restricted the area in which Redd could resell the products. Paragraph 6 of the contract provides in pertinent part that:

> *Buyer shall not sell,* under Shell's trademarks, brand names or color scheme: any product other than the products purchased hereunder; or any mixture

> or adulteration of any product purchased hereunder with any other product (whether or not purchased hereunder) or material; or *any product purchased hereunder outside of, or for delivery, or resale outside of, Buyer's territory.* (Shell's decision to be final as to whether or not any location is within Buyer's territory.) [Emphasis added.]

In the area of Redd's operation, Continental Oil Company did not have any refining capacity and thus was operating as a wholesaler on the same functional level as Redd. Continental purchased petroleum products from Shell at the Ciniza Refinery under purchase agreements dated August 25, 1965 and May 7, 1969. However, Shell sold petroleum products to Redd for resale under Shell's trademarks at a considerably higher price than the petroleum products sold to Continental. The prices to Redd were delivery point prices at Blanding, Utah and Kayenta, Arizona, whereas Continental's prices were for petroleum products delivered at the Ciniza Refinery. The excessive price charged Redd, however, did not result merely from increased transportation costs.

The Shell standard form contract precludes a branded jobber from purchasing petroleum products for resale under the Shell trademarks from other Shell branded jobbers. The only petroleum products that can be sold under the Shell trademarks are those purchased directly through Shell Oil Company. That Shell enforces this interpretation is clear from the proceedings in the instant case. During the time that Redd was a Shell jobber, Redd purchased petroleum products from Eugene Hunt, doing business as Hunt Oil Company. At all times Hunt was a branded Shell jobber selling petroleum products under the Shell trademarks with Shell's consent. Hunt acquired his "Shell" products from the American Refinery in Salt

Lake City, Utah. After Redd filed his complaint in this action, Shell counterclaimed charging that Redd violated the limited permission he had to use Shell's trademarks by selling petroleum products purchased from a "non-Shell" source (Hunt) and selling those products under Shell's trademarks. Therefore, paragraph 6 of the Shell standard form contract was designed and had the direct effect of requiring that Shell make the sale of products to anyone using Shell's trademarks and that no one else could supply those accounts.

Pursuant to the contract, Shell supplied Redd with a substantial amount of petroleum products between 1964 and 1971. The total dollar volume between 1964 and 1971 was in excess of three million dollars. The gasoline, diesel fuels and other petroleum products which Redd marketed in his trade area were supplied by Shell from its Ciniza Refinery.

Shell's attempts to preclude branded jobbers from purchasing petroleum products from suppliers other than Shell were not premised upon any theoretical or real differences between Shell gasoline and that of other potential suppliers. Specifically, the plaintiff's First Set of Interrogatories asked the following interrogatory:

> Interrogatory 5. State with regard to each delivery of (1) regular and (2) premium grade gasoline by Shell to the plaintiff:
>
> (a) The research octane.
>
> (b) The motor octane.
>
> (c) Each physical, chemical, or other characteristic of such gasoline that you claim distinguished such gasoline from any other gasoline having the same research and motor octane as your gasoline.
>
> (d) Each physical, chemical, or other characteristic of the gasoline that you delivered to the plaintiff, including but not limited to its research or motor octane which you claim was different from the gasoline that you delivered during the same period of time to Continental Oil Company from your Ciniza Refinery.

During the hearing on Redd's motion to compel Shell to answer Interrogatory 5, Redd's attorney made the specific claim that Shell was using its trademarks as an illegal tying device in violation of the anti-trust laws. Subsequently, with full knowledge of Redd's claim, Shell answered the interrogatory stating that "Shell does not make any claim in this case concerning differences between . . . Shell gasoline and any other gasoline delivered to plaintiff . . ." At no time prior to trial did Shell amend this answer. The Court relied on this answer when it granted Redd's motions for summary judgment and partial summary judgment and denied Shell's motion for partial summary judgment. Therefore, Shell is estopped from attempting to raise any new issue relating to any alleged differences between its gasoline and any other gasoline purchased by Redd.

Shell's response to Interrogatory 5 states:

> (a) and (b)—To the extent that Shell has information requested by this interrogatory, it may be derived or ascertained from the business records of Shell, and from examination, audit or inspection thereof and the burden of deriving or ascertaining it is substantially the same for plaintiff and for Shell. These documents may be identified as Interrogatory 5 documents and are available for plaintiff to examine, audit or inspect, and to make copies, compilations, abstracts or summaries thereof at a time and place mutually convenient to plaintiff and Shell.
>
> (c) Shell does not make any claim in this case concerning differences between the physical, chemical or other characteristics of Shell gasoline and any

other gasoline delivered to plaintiff or third persons. Moreover, Shell does not know the physical, chemical or other characteristics or the research or motor octane number of the gasoline delivered to plaintiff by others and therefore cannot make such a comparison.

(d) Gasoline delivered by Shell to Continental Oil Company from Shell's Ciniza Refinery had the same physical, chemical and other characteristics, including the same research or motor octane number as that of the same grade contemporaneously delivered by Shell to plaintiff, except that, at times, gasoline delivered to Continental may not have contained the additives which were included in gasoline delivered to plaintiff.

Shell, although it precluded jobbers from purchasing from Shell's competitors by specification or otherwise, purchased from and exchanged petroleum products with other major oil companies, which were resold to Shell branded jobbers for distribution under the Shell trademarks. In this regard, Shell furnished specifications to the supplying company for gasoline to be purchased by Shell. Oftentimes, Shell did not make any independent tests to verify whether the petroleum products acquired through exchanges or purchases met the specifications imposed by Shell. In fact, on all spot exchanges, there was no test as to whether the petroleum products met the specifications other than the suppliers' word. Shell's actions, therefore, clearly indicate that petroleum products can be purchased by specification. It should be noted that a provisionally accepted consent order recently was entered by the Federal Trade Commission against Phillips Petroleum Company under which Phillips cannot prohibit its lessee-dealers from purchasing gasoline from non-Phillips suppliers. See 3 CCH Trade Regulation Reporter ¶ 20,716 (Sept. 17, 1974).

II. ***Shell unlawfully tied Redd's purchase and resale of gasoline and petroleum products to the license to use the Shell trademarks.***

The Supreme Court has defined a tying arrangement as "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." *Northern Pacific Ry. Co. v. United States* [1958 Trade Cases ¶ 68,961], 356 U. S. 1, 6 (1958). In *Fortner Enterprises, Inc. v. United States Steel Corp.* [1969 Trade Cases ¶ 72,757], 394 U. S. 495 (1969), the Court noted that proof of (1) tying and tied products, (2) sufficient power over the tying product to impose the tie, and (3) foreclosure of a substantial volume of commerce are the requisites of invoking the *per se* illegality doctrine in antitrust tie-in cases. Where these elements are proved, *per se* illegality is established because "Competition on the merits with respect to the tied products is inevitably curbed. Indeed 'tying agreements serve hardly any purpose beyond the suppression of competition'. . . . They deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice betwen competing products." *Northern Pacific Ry. Co. v. United States, supra,* 356 U. S. 6. Consequently, the Supreme Court has repeatedly held that tying arrangements are *per se* unlawful. *Northern Pacific Ry. Co. v. United States, supra; United States v. Loews, Inc.* [1962 Trade Cases ¶ 70,537], 371 U. S. 38 (1962); *Fortner Enterprises, Inc. v. United States Steel Corp., supra.* See generally, McCarthy, *Trademark Franchising and Antitrust; The Trouble with Tie-Ins,* 58 Calif. L. Rev. 1085 (1970).

Because the Supreme Court has long held that a "trademark cannot be legally used as a device for a Sherman Act violation", *Timken Roller Bearing Co. v. United States* [1950-1951 TRADE CASES ¶ 62,837], 341 U. S. 593, 599 (1951), the rules of *per se* illegality have been applied in trade-mark licensing tie-in cases. The legal requirements for establishing a *per se* unlawful tying arrangement in conjunction with the licensing of trademarks are set forth in *Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d 43 (9th Cir.), *cert. denied* 405 U. S. 955 (1972), expressly adopted and followed in *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.* [1972 TRADE CASES ¶ 74,062], 463 F. 2d 1002 (5th Cir.), *cert. denied* 409 U. S. 1086 (1972), and *Falls Church Bratwursthaus v. Bratwursthaus Management Corp.*, 1973-1 TRADE CASE, ¶ 74,408 (E. D. Va. 1973). In *Chicken Delight* the Ninth Circuit stated:

> In order to establish that there exists an unlawful tying arrangement plaintiffs must demonstrate *First*, that the scheme in question involves two distinct items and provides that one (the tying product) may not be obtained unless the other (the tied product) is also purchased. . . . *Second*, that the tying product possesses sufficient economic power appreciably to restrain competition in the tied product market. . . . *Third*, that a "not insubstantial amount of commerce is affected by the arrangement." [*Siegel v. Chicken Delight, Inc.*, 448 F. 2d at 47.]

These three elements of a *per se* unlawful tying arrangement occur in this case.

First, a trademark is a tying device for purposes of antitrust analysis. *Siegel v. Chicken Delight, supra; Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra;* and *Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.* The requirement of two separate products is clearly established in this case, because the "sale of a franchise license, with the attendant right to operate a business in the prescribed manner and to benefit from the goodwill of the trade name, in no way requires the forced sale by the franchisor of some or all of the component articles." *Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d at 49. See also *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra.* Here, Redd was licensed to use the Shell marks, brand names and color scheme, which are separate and independent items for purposes of antitrust analysis. See *Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.*

Second, the Shell trademarks — the tying product — possess sufficient economic power to appreciably restrain competition in the tied product market of gasoline and other petroleum products because such power is presumed as a matter of law where the tying product is a registered trademark:

> It is now clear that sufficient economic power is to be presumed where the tying product is patented or copyrighted. . . .
>
> Just as a patent or copyright forecloses competitors from offering the distinctive product on the market, so the registered trade-mark presents a legal barrier against competition. It is not the nature of the public interest that has caused the legal barrier to be erected that is the basis for the presumption, but the fact that such a barrier does exist. Accordingly, we see no reason why the presumption that exists in the case of the patent and copyright does not equally apply to the trade-mark.
>
> Thus we conclude that the District Court did not err in ruling as a matter of law that the tying product — the license to use the Chicken Delight trademark — possessed sufficient market power to bring

> the case within the Sherman Act. [*Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d at 50. Accord, *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra; Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.*]

Thus, as a matter of law, from the presumed power to impose a tie-in arising out of the nature of registered marks, the Shell trademarks possess sufficient economic power to bring this case within the test of *per se* illegality.

Third, a "not insubstantial amount of commerce is affected by this arrangement." Specifically, the sales of gasoline and other petroleum products by Shell to Redd were in excess of $3,000,000. As a matter of law, this is a "not insubstantial amount of commerce." See *Fortner Enterprises, Inc. v. United States Steel Corp., supra,* 394 U. S. at 501-502. The "amount of commerce" requirement for bringing a case within the *per se* test of illegality also is met if the amount of commerce affected is not *de minimus. Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.* Three million dollars' worth of Shell products sold to Redd and foreclosed to Shell's competitors is not *de minimus.* Thus, as a matter of law, the requirement of a "not insubstantial" or a "not *de minimus*" amount of commerce affected by the tying arrangement has been established in this case.

Shell has not pleaded any justification for the imposition of this tying arrangement. In response to Count III of the complaint, Shell simply denied the allegations and did not assert any affirmative defenses by way of justification. Consequently, as a matter of law, Shell is precluded from asserting any justification for its *per se* unlawful tying arrangement.

Shell did not authorize Redd to purchase gasoline and petroleum products from other suppliers on the basis of

specifications, even though Shell explicitly stated in response to Interrogatory 5 that there is no difference in "Shell gasoline and any other gasoline delivered to plaintiff or third persons." It should be noted that Shell purchased gasoline for resale under the Shell marks pursuant to exchange agreements and by specifications. In this regard, the Ninth Circuit in *Siegel v. Chicken Delight, Inc., supra,* 448 F. 2d at 51, stated:

> Restraint of trade can be justified only in the absence of less restrictive alternatives. In cases such as this, where the alternative of specification is available, the language of *Standard Oil Co. v. United States* . . . 337 U. S. at 306, in our view states the proper test, applicable in the case of trade-marks as well as in other cases:
>
> ". . . the protection of the goodwill of the manufacturer of the tying device — fails in the usual situation because specification of the type and quality of the product to be used in connection with the tying device is protection enough. . . . The only situation, indeed, in which the protection of goodwill may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied."

See also the provisionally accepted consent decree entered by the Federal Trade Commission against Phillips Petroleum Company under which Phillips cannot prohibit its lessee-dealers from purchasing gasoline from non-Phillips suppliers. 3 CCH TRADE REGULATION REPORTER ¶ 20,716 (Sept. 17, 1974).

Therefore, on the uncontradicted evidence and as a matter of law, Redd is entitled to summary judgment on Count III of the complaint establishing that Shell's Jobber Sales Contract is a *per se* violation of Section 1 of the Sherman Act and Section 3 of the Clayton Act.

III. ***Shell's use of its trademarks to impose an unlawful per se tying contract upon Redd, and Shell's jobber contract restricting Redd's right to resell products purchased from Shell to a defined territory and customers, both constitute a misuse of Shell's trademarks in violation of Section 33(b)(7) of the Lanham Act, thereby establishing an absolute defense to Shell's counterclaim for infringement.***

The contract between Redd and Shell restricts Redd's right to resell products purchased from Shell in the following manner (paragraph 6):

> 6. Franchise: During the continuance of this contract, Buyer shall have the right to sell, under the Shell trademarks, brand names and color scheme, the products purchased hereunder, for tank truck delivery within the territory outlined in red on the map attached hereto (herein called "Buyer's territory"); but Shell reserves for itself the right to sell its product under its trademarks, brand names and color scheme within Buyer's territory, and for itself and all others authorized by it, the right so to sell such products outside of Buyer's territory. Buyer shall not sell, under Shell's trademarks, brand names or color scheme: . . . any product purchased hereunder outside of, or for delivery or resale outside of, Buyer's territory (Shell's decision to be final a to whether or not any location is within Buyer's territory).

Even though title to the goods supplied under the contract passed to Redd, the plain meaning and actual effect of paragraph 6 is to (1) restrict resale geographically, (2) restrict the customers to whom Redd may resell within and without the assigned territory, and (3) divide geographic and customer markets between Redd and Shell. By restricting Redd's right to resell product to a specified territory and customers, the contract constitutes the *per se* violation of a restraint upon alienation, as enun-

ciated in *United States v. Arnold, Schwinn & Co.* [1967 TRADE CASES ¶ 72,126], 338 U. S. 365 (1967). In that case the Court stated:

> We are here concerned with a truly vertical arrangement, raising the fundamental question of the degree to which a manufacturer may not only select the customers to whom he will sell but also allocate the territories for resale and confine access to his product to selected, or franchised, retailers. We conclude that the proper application of § 1 of the Sherman Act to this problem requires differentiation between the situation where the manufacturer parts with title, dominion, or risk with respect to the article, and where he completely retains ownership and risk of loss.
>
> As the District Court held, where a manufacturer *sells* product to his distributor subject to territorial restrictions upon resale, a *per se* violation of the Sherman Act results. And, as we have held, the same principle applies to restrictions of outlets with which the distributors may deal and to restraints upon retailers to whom the goods are sold. Under the Sherman Act, it is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it. . . . Such restraints are so obviously destructive of competition that their mere existence is enough. If the manufacturer parts wtih dominion over his product or transfers risk of loss to another, he may not reserve control over its destiny or the conditions of its resale. To permit this would sanction franchising and confinement of distribution as the ordinary instead of the unusual method which may be permissible in an appropriate and impelling competitive setting, since most merchandise is distributed by means of purchase and sale . . . [T]o allow this freedom where the manufacturer has parted with dominion over the goods — the usual marketing situation — would violate the ancient rule against restraints on alienation and open the door to exclusivity of outlets and limi-

tations of territory further than prudence permits. [388 U. S. at 378-80.]

The fact that the restriction upon resale is imposed pursuant to a trademark license is irrelevant because "a distributor of a trademarked article may not lawfully limit by agreement, express or implied, the price at which or the persons to whom its purchaser may resell." *United States v. Bausch & Lomb Optical Co.* [1944-1945 TRADE CASES ¶ 57,224], 321 U. S. 707, 721 (1941). The vertical market restraints imposed pursuant to trademark licenses on eye glass lenses in *Bausch & Lomb Optical Co., supra,* are strikingly similar to the vertical market restraints utilized by Shell in this case. See also *Timken Roller Bearing Co. v. United States, supra; Ethyl Gasoline Corp. v. United States* [1940-1943 TRADE CASES ¶ 56,013], 309 U. S. 346 (1940); *United States v. General Motors Corp.* [1966 TRADE CASES ¶ 71,750], 384 U. S. 127 (1966); *United States v. Topco Associates, Inc.* [1972 TRADE CASES ¶ 73,904], 405 U. S. 596 (1972); and *American Industrial Fastener Corp. v. Flushing Enterprises, Inc.* [362 F. Supp. 32] [1973-2 TRADE CASES ¶ 74, 619] 622 B. N. A. A. T. R. R. p. D-1, July 17, 1973 (N. D. Ohio).

In summary, Shell has unlawfully tied its trademarks to the purchase of gasoline and petroleum products, and Shell has unlawfully imposed vertical restraints upon the plaintiff's right to resell gasoline and petroleum products. Such conduct not only constitutes *per se* violations of Section 1 of the Sherman Act, but also constitutes a bar to an action for infringement of Shell's trademarks, thereby requiring summary judgment on Count II of Shell's counterclaim.

Section 33(b)(7) of the Lanham Act, 15 U. S. C. § 1115(b)(7), provides:

> If the right to use the registered mark has become incontestable under Section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce or in connection with the goods or service specified in the affidavit filed under the provisions of said Section 1065 subject to any conditions or limitations stated therein except when one of the following *defenses or defects* is established:
>
> . . . .
>
> (7) That *the mark has been or is being used to violate the antitrust laws of the United States.* [Emphasis added.]

The legislative history of Section 33(b)(7) of the Lanham Act makes clear the intent of Congress to bar infringement actions on marks being used to violate the antitrust laws of the United States. Subsection 7 of Section 33(b) was inserted in the final bill at the insistence of the Senate and by agreement at the Conference Committee of the Senate and the House. The Conference Committee Report stated that "This amendment provides that the use of a registered mark in violation of the antitrust laws shall constitute a defense to a suit by the registrant." 92 Cong. Rec. 7872 (79th Cong., 2nd Sess., June 28, 1946); 92 Cong. Rec. 7523 (79th Cong., 2nd Sess., June 25, 1946). Senator O'Mahoney, a member of the Conference Committee and sponsor of the amendment, insisted that the purpose of the amendment be made absolutely clear: "Mr. President, the point I wish to make perfectly clear is that the use of such a mark to violate the antitrust laws constitutes a defense to an infringement suit." "[I]t is of such great importance to the public of the United States that restraints of trade shall not be permitted, that the Senate inserted this amendment to make it a defense to an infringement suit as well as to make it a ground for contestability if it should be shown that the registrant was using the mark itself to violate the antitrust law." (92 Cong. Rec. 7873.)

All three Senate conferees agreed that the test is not "that the trademark must be used in violation of the antitrust laws as the sole and efficient cause," but that "it must at least be one of the active, proximate causes in violation." With this understanding the Senate adopted the Conference Report (92 Cong. Rec. 7874) and the courts have followed this clear standard. For example:

> To the extent that plaintiff seeks by this action to protect the integrity of an exclusive wholesale marketing arrangement rather than the integrity of its trademark, it is sufficient to say that the Lanham Act affords no such protection and that a court of equity will not lend itself to this purpose in a trademark infringement action. [*Puritan Sportswear Corp. v. Shure*, 307 F. Supp. 377, 390-91] (W. D. Pa. 1966).

Here, Redd has established as a matter of law that Shell used its trademark to commit at least two *per se* violations of the antitrust laws for the purpose of maintaining its exclusive wholesale marketing arrangement rather than protecting the integrity of its trademarks. Pursuant to Section 33(b)(7) of the Lanham Act, Shell's violations of the antitrust laws constitute a bar to an action for infringement. *Puritan Sportswear Corp. v. Shure, supra; Phi Delta Theta Fraternity v. J. A. Buchroeder & Co.* [1966 TRADE CASES ¶ 71,734, 251 F. Supp. 968 (W. D. Mo. 1966).

Pursuant to Section 4 of the Clayton Act, because Shell has used its trademarks in a manner to violate the antitrust laws, Shell has lost the right to enforce its licenses and to sue for infringement. *Phi Delta Theta Fraternity v. J. A. Buchroeder & Co., supra; Morton Salt Co. v. G. S. Suppiger Co.* [1940-1943 TRADE CASES ¶ 56,176], 314 U. S. 488 (1942); *Lear, Inc. v. Adkins* [1969 TRADE CASES ¶ 72,823], 396 U. S. 653 (1969).

Therefore, as a matter of law, Redd is entitled to summary judgment dismissing Count II of Shell's counterclaim.

APPENDIX B

SHERMAN ACT § 1, 15 U. S. C. § 1:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: . . . .

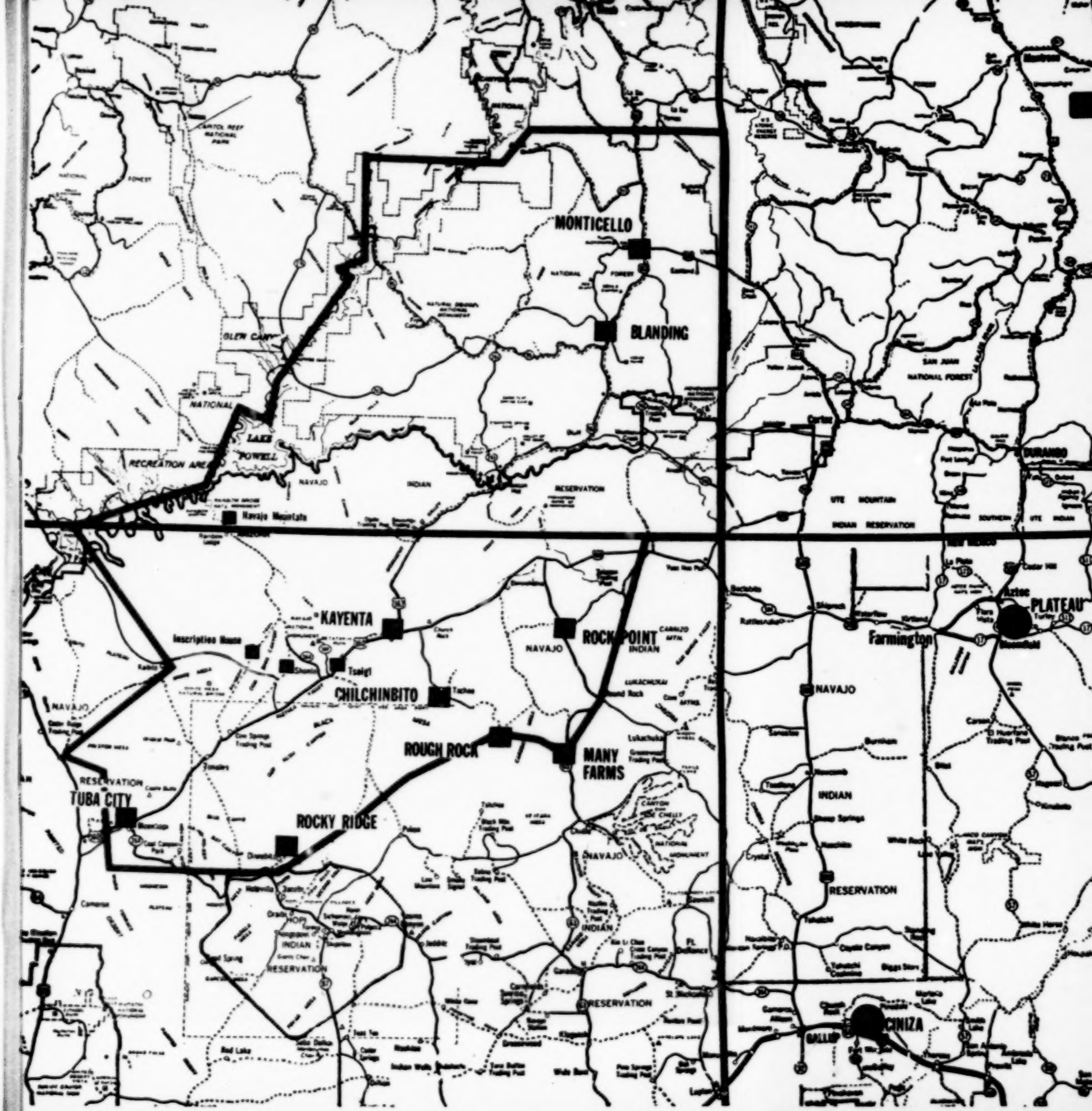
LANHAM ACT § 33(b)(7), 15 U. S. C. 1115(b)(7):

(b) If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

• • • •

(7) That the mark has been or is being used to violate the antitrust laws of the United States.

APPENDIX C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NAVAJO
INDIAN
RESERVATION
LAKE POWELL
RECREATION AREA
GLEN CANY
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FOREST
SAN JUAN
NATIONAL FOREST
UTE MOUNTAIN
INDIAN RESERVATION
Navajo Mountain
Inscription House
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